

Message Text

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ACTION EB-08

INFO OCT-01 AF-10 ISO-00 AID-05 CIAE-00 COME-00 FRB-01
INR-10 NSAE-00 ICA-20 XMB-04 OPIC-06 SP-02 LAB-04
SIL-01 OMB-01 /073 W
-----076556 221034Z /11

R 220825Z MAY 78
FM AMEMBASSY ABIDJAN
TO DEPT OF TREASURY WASHDC
AMEMBASSY LOME
INFO SECSTATE WASHDC 8809

UNCLAS SECTION 1 OF 2 ABIDJAN 4839

DEPT PASS NAC AGENCIES

E.O. 11652: N/A
TAGS: EAID, AFDF
SUBJ: PROPOSED AFRICAN DEVELOPMENT FUND
SUPPLEMENTARY LOAN TO FINANCE TOGO
SOKODE-BASSAR ROAD

SUMMARY: AFDF MANAGEMENT PROPOSES 5 MILLION FUND
UNIT OF ACCOUNT (FUA EQUAL TO U.S. \$1.11)
SUPPLEMENTARY LOAN TO GOVERNMENT OF REPUBLIC OF
TOGO TO FINANCE CONSTRUCTION OF A TWO LANE BITUMEN
ROAD LINKING SOKODE AND BASSAR IN THE CENTRAL REGION
OF THE COUNTRY. PROPOSED LOAN TO SUPPLEMENT A 1975
AFDF LOAN OF FUA 4.48 MILLION. ORIGINAL COST OF ROAD
ESTIMATED AT FUA 6.05 MILLION WITH BALANCE OF FINANCING
TO BE PROVIDED BY GOT. TOTAL COST OF ROAD NOW ESTIMATED
AT FUA 13.71 MILLION. END SUMMARY.

1. AFDF DOCUMENT AD/78/44 AND ATTACHEMENTS DESCRIBING
LOAN POUCHED TO NATIONAL ADVISORY COUNCIL AGENCIES
MAY 19, 1978. BOARD CONSIDERATION SCHEDULED FOR
JUNE 7, 1978. REQUEST AMEMBASSY LOME CABLE ANY
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VIEWS TO ASSIST NAC DELIBERATIONS ON U.S. BOARD
POSITION.

2. AFDF MANAGEMENT PROPOSES FUA 5 MILLION LOAN
TO GOT TO FINANCE 76 PERCENT OF COST INCREASES
IN COMPLETING A 57.3 KM TWO LANE BITUMEN STANDARD
ROAD LINKING SOKODE AND BASSAR IN THE CENTRAL REGION

OF THE COUNTRY. PROJECT INCLUDES CONSULTANCY SERVICES FOR ANALYSIS OF TENDERS AND SUPERVISION OF CONSTRUCTION. THE LOAN IS A SUPPLEMENT TO A 1975 AFDF LOAN OF FUA 4.48 MILLION, WHICH TOGETHER WITH GOT PARTICIPATION OF FUA 1.57 MILLION WAS TO HAVE FINANCED THE PROJECT ORIGINALLY ESTIMATED TO COST FUA 6.05 MILLION. INITIAL COST ESTIMATES INCLUDED 10 PERCENT ALLOWANCE FOR PHYSICAL CONTINGENCIES AND 20 PERCENT ALLOWANCE FOR PRICE ESCALATION. ORIGINAL AFDF LOAN WAS TO MEET ALL FOREX COSTS, WITH GOT MEETING ALL LOCAL COSTS. SINCE DATE OF ORIGINAL AFDF LOAN, GOT HAS PROVIDED AN ADDITIONAL FUA 1.07 IN FOREX TO HELP MEET ESCALATING COSTS OF PROJECT, BRINGING ITS LEVEL OF PARTICIPATION TO FUA 2.64 MILLION. TOTAL COST OF PROJECT NOW ESTIMATED TO COST FUA 13.71 MILLION INCLUDING AN ADDITIONAL FUA 4.9 MILLION IN FOREX AND FUA 1.65 MILLION IN LOCAL COSTS. SUPPLEMENTARY AFDF LOAN TO MEET FUA 4.942 MILLION FOREX AND FUA 58 THOUSAND IN LOCAL COSTS. GOT TO PROVIDE AN ADDITIONAL FUA 1.59 MILLION TO MEET LOCAL COSTS. REVISED FINANCING PLAN THEREFORE PROVIDES FOR AFDF FINANCING 69 PERCENT OF PROJECT OR FUA 9.48 MILLION (OF WHICH FUA 58 THOUSAND IS LOCAL COSTS) AND GOT FINANCING 31 PERCENT OR FUA 4.23 MILLION (FUA 1.07 MILLION FOREX). GOT ALSO FINANCED COST OF ORIGINAL FEASIBILITY AND

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ENGINEERING STUDIES IN AMOUNT OF FUA 200 THOUSAND. PROPOSED TERMS AFDF LOAN: 50 YEARS AMORTIZATION, INCLUDING TEN YEARS GRACE, 0.75 PERCENT SERVICE CHARGE. GOT TO BE BORROWER, MINISTRY OF WORKS TO BE EXECUTING AGENCY.

3. APPRAISAL REPORT INDICATED THAT PRICES QUOTED IN THE INITIAL ENGINEERING STUDIES WERE BASED ON LOW PRICES THEN PREVAILING IN THE COUNTRY FOR CIVIL WORKS WHICH DID NOT YET REFLECT THE IMPACT OF WORLD WIDE INCREASES IN OIL PRICES. SECONDLY, THERE WERE ADMINISTRATIVE DIFFICULTIES IN IMPLEMENTING PROJECT AND THERE WAS A ONE YEAR DELAY BETWEEN THE TIME OF APPRAISAL AND TENDERING, AND ANOTHER BETWEEN TENDERING AND SIGNING OF THE CONTRACT. BID PRICES OF THE LOWEST TENDER WERE TWICE THE INITIAL ESTIMATE. AT THAT TIME,

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DEPT PASS NAC AGENCIES

AFDF MANAGEMENT ADVISED GOT TO NEGOTIATE A CONTRACT WITH THE LOWEST BIDDER WHICH RESULTED IN A MARGINAL REDUCTION IN BID PRICE. ADDITIONALLY, INCREASED CONSTRUCTION COSTS ARE DUE IN PART TO UNEXPECTED ROCK AND SOIL CONDITIONS AND REQUIRED DESIGN CHANGES. IN ORDER TO REDUCE COSTS IT WAS INITIALLY PLANNED THAT THE MAXIMUM GRADIENT OF THE ROAD IN THE MOUNTAINOUS AREAS SHOULD BE NINE PERCENT. HOWEVER, IT WAS SUBSEQUENTLY LEARNED THAT THIS STEEP A GRADIENT DOES NOT PROVIDE ADEQUATE SAFETY MARGINS FOR THE HEAVY TRUCKS WHICH ARE EXPECTED TO USE THE ROAD. THEREFORE THE GARDIENT WAS REDUCED TO SIX PERCENT. THE APPROAISAL REPORT EMPHASIZES THAT CONTRACT NEGOTIATIONS AND COMMENCEMENT OF WORK, "WERE CAUGHT UP IN THE WAKE OF WORLD INFLATION THAT HAS SUBSTANTIALLY INCREASED THE COST OF CIVIL WORKS." THE REPORT ALSO NOTES THAT THE CONSTRUCTION CONTRACT CONTAINS A PRICE ESCALATION CLAUSE TO COVER ANY INFLATION OF BASE COSTS, AS OF THE DATE OF TENDER. APPROAISAL REPORT INDICATES THAT INITIAL LOAN DOCUMENT PROVIDED FOR GOT TO ASSUME COST OVERRUNS. MANAGEMENT FEELS THAT TO DATE
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GOT HAS ATTEMPTED TO DO SO TO THE MAXIMUM EXTENT POSSIBLE AS EVIDENCED BY GOT SUPPLEMENTARY FINANCING OF FUA 1.07 MILLION IN FOREX. MANAGEMENT FEELS THAT GOT CANNOT ABSORB ADDITIONAL COSTS BEYOND THOSE BEING PROPOSED AND CONSTRUCTION FIRM HAS DETERMINED TO

CEASE WORK ON PROJECT UNLESS ADDITIONAL FUNDS
BECOME IMMEDIATELY AVAILABLE.

4. THE GOT REGARDS THE SOKODE-BASSAR ROAD
AS AN IMPORTANT TRUNK ROUTE CONNECTING THE LARGE
RURAL SETTLEMENT AREAS OF NANGBANI, BIGABO, BINAKO,
DJUELO, LEGONANSELANDE AND SEGOEDE TO THE
MAIN URBAN CENTERS OF SOKODE AND BASSAR. THE PROJECT'S
IMPACT AREA HAS A POPULATION OF ABOUT 60 THOUSAND
PEOPLE. THE AREA IS A RICH AGRICULTURAL REGIONAL
ENDOWED WITH FERTILE SOILS AND A CLIMATE WHICH ALLOWS
DOUBLE CROPPING. PRINCIPAL CROPS PRODUCED ARE YAMS,
SORGHUM, RICE, MAIZE, GROUNDNUTS AND COTTON. THE
ROAD WILL PROVIDE LOCAL FARMERS AN ACCESS TO THE
MAIN NORTH-SOUTH TRUNK ROAD OF THE COUNTRY THUS
ASSISTING IN EVACUATION OF AGRICULTURAL PRODUCE
TO MAIN MARKETS IN OTHER PARTS OF THE COUNTRY. THE
ROAD ALSO FORMS AN IMPORTANT SEGMENT OF TWO INTER-
NATIONAL ROADS, THE FIRST LINKING THE PORT OF LOME
IN THE SOUTH TO UPPER VOLTA IN THE NORTH, AND THE
SECOND LINKING NORTHERN GHANA (TAMALE) TO TOGO AT
THE FRONTIER TOWN OF NATCHAMBA. THE SOKODE-BASSAR
ROAD WILL EVENTUALLY FORM AN IMPORTANT PORTION
OF THE INTERNATIONAL ROUTE LINKING GHANA, TOGO
AND BENIN. INTERNATIONAL TRAFFIC IS ESTIMATED
TO ACCOUNT FOR APPROXIMATELY TEN PERCENT
OF FORECASTS MADE FOR THE PROJECT ROAD. TRAFFIC
ON THE EXISTING AXIS GREW AT A RATE OF 20 PERCENT
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PER YEAR BETWEEN 1970 AND 1974 AND IS EXPECTED TO
CONTINUE AT A GROWTH RATE OF BETWEEN TEN AND FIFTEEN
PERCENT. IN 1979, WHEN THE PROJECT IS SCHEDULED
FOR COMPLETION, AVERAGE DAILY TRAFFIC IS ESTIMATED
TO BE 253 VEHICLES PER DAY, OR 92 THOUSAND FOR THE
YEAR. BY THE END OF PROJECT LIFE IN THE YEAR 1998,
TRAFFIC COUNTS ARE EXPECTED TO APPROACH 796 THOUSAND
VEHICLES PER YEAR.

5. WORK ON THIS ROAD IS NOW PROGRESSING SATISFACTORILY
AND CONSTRUCTION IS ABOUT 50 PERCENT COMPLETE. BENEFITS
TO BE DERIVED FROM THE PROJECT INCLUDE SAVINGS IN
VEHICLE OPERATING COSTS, AVOIDED OPERATING COSTS ON
3 KM OF GRAVEL ROAD, SAVINGS IN ROAD MAINTENANCE COSTS,
NET INCREASE IN AGRICULTURAL INCOME AND ADDITIONAL
INCOME FROM TOURISM. THE CENTRAL REGION WHICH IS THE
AREA SERVED BY THE PROJECT PRODUCES ABOUT 60 PERCENT
OF THE COUNTRY'S YAMS. IT IS ESTIMATED THAT THE ROAD
WILL GENERATE A DIRECT INCOME FOR THE INHABITANTS OF
THE REGION OF ABOUT FUA 169 THOUSAND PER YEAR THROUGH INCREASED

YAM PRODUCTION AND TOURISM. THE ROAD IS ALSO EXPECTED
TO ASSIST IN DELIVERY OF HEALTH AND EDUCATION
SERVICES TO THE PEOPLE OF THE REGION. GIVEN
CURRENT COST ESTIMATES AND CONDITIONS, THE ECONOMIC
RATE OF RETURN IS CALCULATED AT 17 PERCENT.
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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 jan 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: FINANCE, CONSTRUCTION, DEVELOPMENT LOANS, HIGHWAY TRANSPORTATION
Control Number: n/a
Copy: SINGLE
Draft Date: 22 may 1978
Decaption Date: 01 jan 1960
Decaption Note:
Disposition Action: n/a
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment:
Disposition Date: 01 jan 1960
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1978ABIDJA04839
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Expiration:
Film Number: D780215-0102
Format: TEL
From: ABIDJAN
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1978/newtext/t19780535/aaaabdjy.tel
Line Count: 230
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: 57ce8a99-c288-dd11-92da-001cc4696bcc
Office: ACTION EB
Original Classification: UNCLASSIFIED
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 5
Previous Channel Indicators: n/a
Previous Classification: n/a
Previous Handling Restrictions: n/a
Reference: n/a
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 29 mar 2005
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: N/A
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 2622280
Secure: OPEN
Status: NATIVE
Subject: PROPOSED AFRICAN DEVELOPMENT FUND SUPPLEMENTARY LOAN TO FINANCE TOGO SOKODE-BASSAR ROAD
TAGS: EAID, EFIN, ECRE, TO, AFDF
To: TRSY LOME
Type: TE
vdkgvwkey: odb://SAS/SAS.dbo.SAS_Docs/57ce8a99-c288-dd11-92da-001cc4696bcc
Review Markings:
Sheryl P. Walter
Declassified/Released
US Department of State
EO Systematic Review
20 Mar 2014
Markings: Sheryl P. Walter Declassified/Released US Department of State EO Systematic Review 20 Mar 2014